

**ECONOMICS MC AD/AS and Output**

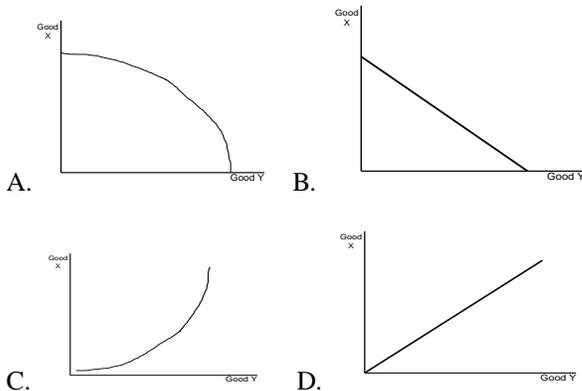
51. Assume a country has experienced economic growth, despite the fact that the quantity of their inputs has remained unchanged. This growth was likely caused by
- A random shocks to the economic system.
  - B an increase in the productivity of inputs.
  - C an increase in imports in areas they lack comparative advantage.
  - D a sell of government bonds by their central bank.
  - E an increase in the number of machines used in production.

52. During recessions many businesses reduce inventories. Which BEST explains how this reduction in inventories affects the aggregate economy?
- A the reduction in inventories gives consumers fewer goods to purchase, reducing consumption
  - B the reduction in inventories is a signal to the FED to raise interest rates since there will be fewer loans
  - C as businesses decrease inventories, aggregate demand decreases due to reduced investment
  - D as businesses decrease inventories, frictional unemployment increases
  - E a reduction in inventories reduces the strain on productive resources and the economy can return to full employment

53. An economy with a spending multiplier of approximately 1.5 has a marginal propensity to consume of approximately
- A 10
  - B 1.5
  - C .33
  - D .66
  - E .5

54. An investment demand graph shows the relationship between
- A price and quantity
  - B price level and real GDP
  - C interest rates and loanable funds
  - D real and nominal interest rates
  - E interest rates and quantity of investment

Use the following set of graphs to answer question 5



55. If the land, labor, and capital used in the production of goods X and Y are almost identical, then the correct shape of the PPF is best represented by which graph?
- A. a
  - B. b
  - C. c
  - D. d
  - E. Either A or B could be correct depending on the goods.

56. As the price level falls, people's incomes purchase more goods and their real wealth increases. This helps to explain
- A a shift in the AD line to the left.
  - B the three segments of the SRAS line.
  - C the slope of the AD line.
  - D the vertical nature of the LRAS line.
  - E a shift in the AD line to the right.

57. Under what conditions would an economy have a horizontal SRAS curve?
- A when there are unemployed resources in the economy
  - B when the economy is at or near full employment
  - C if the government has placed a price ceiling or floor in certain markets
  - D if there is no tradeoff between producing two goods
  - E if aggregate expenditures equals real national income

58. A decrease in SRAS will have which combination of effects on the economy?

	<u>PRICE LEVEL</u>	<u>OUTPUT</u>	<u>EMPLOYMENT</u>
A	Increase	Decrease	Increase
B	Increase	Decrease	Decrease
C	Decrease	Increase	Increase
D	Increase	Increase	Increase
E	Decrease	Decrease	Decrease

Use the following information for question 59.

	Arbec	Nerbo
Paper	20 reams	20 reams
Oranges	10 lbs	60 lbs

59. If Arbec and Nerbo wished to engage in trade, who should produce paper and why?
- A Arbec, because they have comparative advantage.
  - B Arbec, because they have absolute advantage.
  - C Nerbo, because they have comparative advantage.
  - D Nerbo, because they have absolute advantage.
  - E Neither, because paper for oranges is not a fair trade.

60. The intersection of the aggregate supply curve and the aggregate demand curve occurs at the economy's equilibrium level of
- A. real investment and the interest rate.
  - B. real disposable income and unemployment.
  - C. real national output and the price level.
  - D. government expenditures and taxes.
  - E. imports and exports.

61. The reason the tax multiplier is negative is
- A it is always calculated by subtracting the value from 0.
  - B it is calculated using negative mps.
  - C there are no positive uses for taxes.
  - D taxes always hurt economies.
  - E it is calculated using negative mpc.

**62. If the government misreads an economy and tries to maintain a level of production that is beyond the LRAS line, what will happen in the long run?**

- A price and output will continue to rise in an effort to grow the economy
- B stagflation will occur as the government causes increased unemployment and inflation
- C prices will rise and output will remain at the natural level of unemployment
- D there will be tremendous growth in the economy, shifting the aggregate supply curve to the right
- E the aggregate demand curve will change slope and eventually become vertical

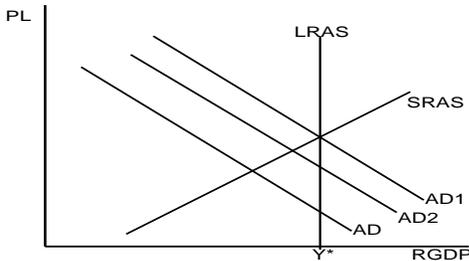
**63. Ceteris paribus, if Congress passes a tax cut for the middle class and the president signs it, which will most likely occur in the economy?**

- A AD will shift left.
- B SRAS will shift left
- C AD will shift right.
- D SRAS will shift right.
- E LRAS will shift right.

**64. How does unanticipated inflation in the United States affect a foreign government repaying a loan with a fixed rate of interest to the United States?**

- A They benefit because they get to repay the loan with dollars that are worth less.
- B They lose because the amount of the loan will increase by the rate of inflation.
- C This question is not realistic because the US only makes adjustable rate loans.
- D They benefit because they get to pay back less money to the United States.
- E To answer this question you need to know the interest rate on the loan and the rate of inflation..

**Use the following graph for question 15**



**65. Which sequence of events BEST explains this graph?**

- A The US imported a lot of goods, then exported even more goods
- B The government increased spending by \$100, then decreased taxes by more than \$100.
- C Government increased spending, then Asia placed trade barriers on the US
- D Consumers decreased their consumption, then businesses increased their investment
- E Government cut taxes, then increased spending

**66. Which is true according to classical economic theory?**

- I. In the long run prices are flexible
  - II. In the long run wages are flexible
  - III. Fiscal policy is effective at correcting recessions
  - IV. Inflationary gaps can be self-correcting
- A I and II only
  - B II and IV only
  - C I, II, III, and IV
  - D I, II, and III only
  - E I, II, and IV only

**67. An outward shift in a production possibility curve would be most closely synonymous with a(n)**

- A. increase in long run aggregate supply
- B. decrease in long run aggregate supply
- C. increase in aggregate demand
- D. decrease in aggregate demand
- E. decrease in the capacity utilization rate

**68. An economy with a marginal propensity to save of .5 will have a tax multiplier of**

- A -1
- B .5
- C -.5
- D 2
- E -2

**69. If the economy is operating in the intermediate range of the aggregate supply curve and if aggregate demand increases due to an increase in net exports, then the price level, output, and unemployment rate are most likely to change in which of the following ways?**

	Price Level	Output	Unemployment Rate
A.	Increase	Increase	Increase
B.	Increase	Increase	Decrease
C.	Increase	Decrease	Increase
D.	Increase	Decrease	Decrease
E.	Decrease	Decrease	Increase

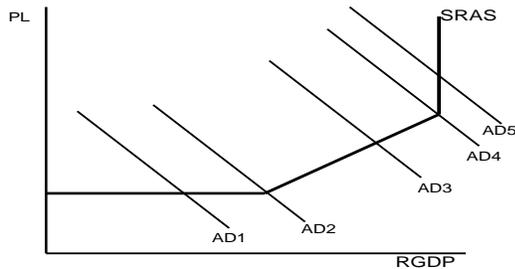
**70. Which would NOT increase aggregate demand?**

- A. increase in consumer confidence
- B. decrease in unused capital
- C. increase in government spending
- D. decrease in taxes
- E. increase in foreign real national income

**71. The location of the long-run aggregate supply curve is most closely related to which of the following?**

- A. short-run aggregate supply curve
- B. production possibility curve
- C. marginal costs
- D. aggregate demand curve
- E. aggregate expenditure diagram

Use the graph below to answer question 72



72. Based on the graph in the figure above, an inflationary expansion with no change in real output would be shown by a movement from

- A AD1 to AD2
- B AD2 to AD3
- C AD3 to AD4
- D AD4 to AD5
- E The graph does not provide enough information to answer the question

73. Exogenous, adverse supply shocks affect the economy because they

- A. can be anticipated and decrease aggregate supply.
- B. can be anticipated and increases aggregate supply.
- C. cannot be anticipated and decrease aggregate supply.
- D. cannot be anticipated and increase aggregate supply.
- E. cannot be anticipated and decrease aggregate demand.

74. Increasing aggregate demand and aggregate supply at the same time has which effect on the economy?

- A price level will increase, output will decrease
- B price level and output will both increase
- C price level is undetermined, output will increase
- D price level will decrease, output will increase
- E price level and output will both decrease

75. A headline in a college town reads: "Largest College Graduating Class Ever, Despite Severe Recession." Based on this headline, what economic consequence can this town expect in the immediate future?

- A an increase in frictional unemployment
- B a decrease in the local interest rate
- C an increase in the demand for textbooks
- D to be able to avoid the effects of the recession
- E a decrease in their overall unemployment

76. Which describes how the BEA handles the purchases of brand new homes when calculating nominal GDP?

- A New homes are not counted.
- B Houses are counted under consumption since it is consumers that buy them.
- C It depends on who buys the house as to where it gets counted.
- D New homes are considered an investment and counted under the investment category.
- E Houses are counted as a land purchase rather than capital.

77. If the government of a country was trying to correct a \$600 gap in their economy and they knew that people spent 80% of any change in their income, the best approach for the government would be to

- A decrease taxes by \$600.
- B decrease taxes by \$150.
- C increase government spending by \$150.
- D increase government spending by 20%.
- E increase government spending by \$600.

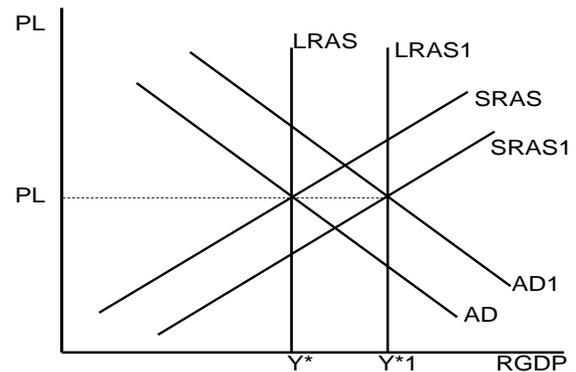
78. An increase in energy costs will most likely cause the price level and real gross domestic product to do what?

- |    | <u>Price Level</u> | <u>Real GDP</u> |
|----|--------------------|-----------------|
| A. | increase           | increase        |
| B. | increase           | decrease        |
| C. | increase           | no change       |
| D. | decrease           | increase        |
| E. | decrease           | decrease        |

79. Which of the following would most likely cause a rightward shift in an economy's aggregate supply curve?

- A. increase in interest rates.
- B. tax increase of \$.50 per gallon for gasoline
- C. across the board wage cuts
- D. passage of a law mandating pollution reduction devices in cars
- E. shutdown of plants and movement of production goods abroad.

Use the following graph for questions 80 and 81:



80. The price level in this graph has not changed because

- A there has been no change in productivity in the economy.
- B any upward pressure from the increase in aggregate demand has been relieved by the downward pressure from the increase in aggregate supply.
- C changes in aggregate supply and aggregate demand only change real output, not price level.
- D the graph is actually drawn incorrectly and should reflect a slight increase in price due to the shift in long run aggregate supply.
- E any time there is an increase in both aggregate demand and aggregate supply there is no change in price.

81. Which statement BEST explains the line shifts that have happened in the graph?

- A An increase in investment caused a short run increase in aggregate demand and then a long run increase in capital goods and labor productivity.
- B A government deficit caused by a recession has encouraged more government spending and that has led to more investment.
- C The FOMC has purchased government bonds on the open market shifting the LRAS and SRAS lines at the same time a tax cut shifted AD to AD1.
- D Automatic stabilizers shifted the SRAS and AD lines while the LRAS line responded to long run changes in unemployment.
- E There is no rational explanation that can explain everything in the graph because the time periods for shifting the LRAS, SRAS, and AD lines are all different.

**82. Which of the following would NOT immediately increase aggregate supply?**

- A. decrease in input prices
- B. increase in productivity
- C. decrease in the price level
- D. decrease in business taxes
- E. increase in availability of resources

**83. Economists note that the marginal propensity to save in an economy has declined in recent years. Which conclusion can be drawn from this observation?**

- A soon the FED will have to print more money to counteract the effects of the savings decline
- B the government can raise taxes since people have more disposable income
- C people are uncertain about economic conditions and are deciding to spend rather than save their extra money
- D banks are likely experiencing increased demand for their services
- E the country can shift aggregated demand with smaller changes in spending because the spending multiplier will be larger

**84. Which rule below is ALWAYS true?**

- A The investment multiplier is equal to the government spending multiplier.
- B The tax multiplier is equal to one.
- C The balanced budget multiplier is equal to  $1/MPC$
- D The investment multiplier plus the tax multiplier equals  $MPS$ .
- E  $MPC/MPS$  equals the tax multiplier

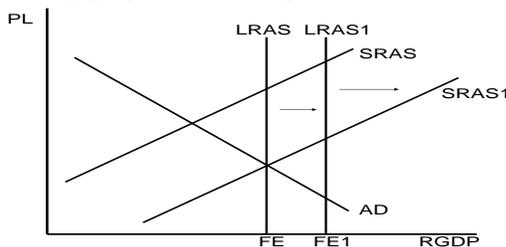
**85. Under the classical theory, long run wages and prices are**

- A fixed in all directions
- B sticky in all directions
- C flexible in either direction
- D dependent on the overall output in the economy
- E flexible in an upwards direction, fixed in a downward one

**86. If, at full employment, the government wants to increase spending by \$100 billion without increasing inflation in the short run, it must do which of the following?**

- A Print more money.
- B Raise taxes by \$100 billion.
- C Lower taxes by \$100 billion.
- D Raise taxes by more than \$100 billion.
- E Lower taxes by more than \$100 billion.

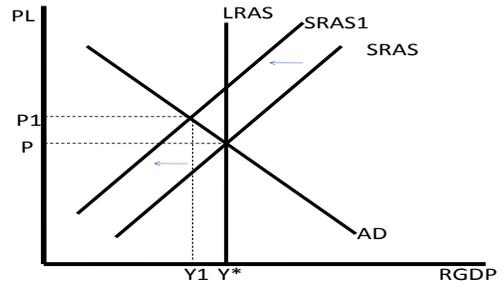
**Use the following graph to answer question 87.**



**87. Which BEST describes what has happened in the graph?**

- A The economy has improved, but is still underutilizing its resources.
- B There has been an exogenous adverse supply shock in the economy.
- C Net exports have increased, providing this country with new supplies for production.
- D The economy is now worse off because they are further away from full employment.
- E There has been a beneficial aggregate demand shock.

**Use the following graph to answer questions 88 and 89.**



**88. The shift from SRAS to SRAS1 above is causing this economy to experience which of the following situations?**

- A. Stagflation
- B. Liquidity
- C. Trade Deficit
- D. Beneficial Supply Shock
- E. An Expansion

**89. Assume the shift in the graph has occurred very recently and there are currently no government or FED initiatives to correct the problem. Which explains how the economy will reach long-run equilibrium again?**

- A The higher price level will cause people to have to spend more money which will help businesses and shift SRAS1 back to SRAS.
- B AD is always shifting to the right so over time it will reach the new equilibrium point.
- C Over time LRAS will naturally shift to the left because the current position is not sustainable.
- D The increase in unemployment will cause people to eventually accept lower wages, which will lower production costs, allowing SRAS1 to shift back to SRAS.
- E The higher price level will cause companies to layoff workers which will decrease aggregate demand to a sustainable level.